

REGULATORY ALERT

**NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314**

DATE: January 2010 **NO:** 10-RA-03

TO: Federally Insured Credit Unions

SUBJ: Interagency Guidance on Conducting Cross-Border Funds Transfers

ENCL: Transparency and Compliance for U.S. Banking Organizations Conducting Cross-Border Funds Transfers

Dear Board of Directors,

This Regulatory Alert is being issued to assist credit union compliance with the Office of Foreign Assets Control (OFAC) sanctions screening and transaction monitoring with respect to Bank Secrecy Act/Anti-Money Laundering requirements. This Alert addresses recent the changes in the Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging standards which impact credit union compliance. The recently issued *Interagency Transparency and Compliance for U.S. Banking Organizations Conducting Cross-Border Funds Transfers* is included as an enclosure.

Cross-border cover payment transactions are used to execute international funds transfers where one or more financial institutions in the U.S. act in a correspondent capacity. A typical cover payment transaction involves the member instructing its credit union to make payment to the account of a payee at an international financial institution. The originator's credit union and the beneficiary's international financial institution do not have a relationship allowing them to settle the payment directly, so an account at a U.S. intermediary financial institution must be used to settle the payment. The intermediary financial institution receives an order to make a payment to the beneficiary's international financial institution, but does not receive the underlying information on the originator and the beneficiary of the funds transfer. The information regarding the originator and beneficiary is sent separately through the SWIFT messaging system.

The intermediary financial institution is unable to monitor or filter the payment details for OFAC compliance. As a result, they cannot assess the risk associated with the correspondent operations and monitor for suspicious activity. In the past, the SWIFT cover payment format has been used to deliberately conceal the parties to a particular transaction.

SWIFT changed its messaging standards as of November 21, 2009 to require the U.S. Originators' financial institutions to use the new payment transfer messaging format for cover payment transactions (MT 202 COV) for which there is an associated SWIFT MT 103 payment order.¹ The MT 202 COV contains mandatory fields for information relating to the originator and beneficiary of the transfer. This will increase the transparency of cover payment transactions by providing additional information regarding the originator and the beneficiary.

Consistent with current practices, credit unions should screen transaction information on all funds transfers and block or reject transactions as required by law and submit required reports to OFAC. The introduction of the MT 202 COV does not change U.S. sanctions obligations, but may increase the amount of information available to be screened. Credit unions acting as intermediary institutions should also conduct monitoring of funds transfers processed through their systems to identify suspicious activity.

If you have any questions regarding this guidance, please contact your district examiner, regional office, or state supervisory authority.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure

¹ The MT 103 is a specific SWIFT payment order messaging format used by credit unions when transferring money from their members to beneficiaries or financial institutions outside the United States.